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Preliminary Report of the Division of Public Utilities
EBA Pilot Program Evaluation Plan

Docket No. 09-035-15
June 29, 2011

Background

Rocky Mountain Power (the Company) filed an application for an Energy Cost Adjustment Mechanism (ECAM) in March 2009. The Utah Public Service Commission's March 3, 2011 Order created an Energy Balancing Account (EBA) for the Company and directed the implementation of a 4-year pilot program for the EBA. The Order identified the 4-year pilot program to begin on October 1, 2011 and established a schedule for the Division of Public Utilities (Division) to audit and monitor the pilot program and to produce two evaluation reports on the pilot program. An Order on Petition for Clarification and Reconsideration or Rehearing, dated May 9, 2011, clarified the schedule for the 4-year EBA Pilot Program.

In the first report, covering a preliminary evaluation of the program, it is intended that the Division address issues or concerns with the program. The first report is to be completed within four months after the conclusion of the second calendar year of the pilot program (four months after December 31, 2013). A second report is the Division's final evaluation of the pilot program and is to be completed within four months after the conclusion of the third calendar year of the pilot (four months after December 31, 2014).

The Commission's EBA Order directed an EBA working group to consider several issues in preparation for the 4-year EBA pilot program. The EBA working group met on April 12, 2011, and decided on an approach and direction for the Division to consider in developing the 4-year EBA Pilot Program Plan. In particular, the Commission's EBA Order, beginning on page 78, directed the Division to do the following:

1) Develop a complete list of data, transaction and other information the Company will be required to file each March 15 to constitute a complete filing.

2) Identify monthly information to be provided to the Division for its ongoing review.

3) Develop a pilot program evaluation plan to:

    a. Identify data and information to be tracked and evaluations to be conducted during the pilot.

b. Identify training requirements, and conduct training for the work group, including, but not limited to:

    i) The relationship of accounts in the EBA to the net power components in the GRID model;

    ii) The relationship to FERC accounts and how they are booked and reconciled.

Items 1) through 3) above are to be filed with the Commission within 120 days from the date of the EBA Order. This Division report responds to that direction. The EBA Order also identified a fourth item:

4) The pilot program shall evaluate, at a minimum:

    a. The sharing mechanism;

    b. Which net power cost components are controllable and which are uncontrollable and whether the sharing element should be eliminated from the uncontrollable costs in the EBA;

    c. The effect of the EBA on the Company's resource portfolio;

    d. Whether the EBA includes the appropriate net power cost components;

    e. The effect of the EBA on the Company's hedging decisions and level of market reliance on net power cost;

    f. Incremental costs of the parties to audit the balancing account;

    g. Unintended consequences resulting from the EBA; and

    h. Monthly vs. annual accrual difference.

While this Division report addresses items 1) through 3) above, its intent is to also anticipate the requirements of item 4) above. The EBA Pilot Program Evaluation Plan issues and criteria developed later in this report provide a foundation for the proposed evaluation outlined in item 4). The intent of the Division's EBA Pilot Program Evaluation Plan issues and criteria is to establish measures and quantifiable outcomes that will provide the basis for an objective and independent assessment of the EBA. The Division's EBA Pilot Program Evaluation Plan is preliminary and subject to change.

Schedule for the EBA 4-Year Pilot Program

The Company's 2010 general rate case in Docket No. 10-035-124 will conclude with a Commission Order on (or about) September 21, 2011, and the 4-year EBA pilot program will begin on October 1, 2011. As part of the 4-year EBA Pilot Program the Company will provide monthly data and other information to the Division from October 2011 through December 2015. This information will primarily be used by the Division for EBA review, auditing, and monitoring purposes. In particular, the Company will provide five filings by March in each year from 2012 through 2016.[1] After the Company's March filing each year, the Division then has 45 days to complete its review of the Company's annual filing.

The Division anticipates receiving monthly data and information from the Company approximately 45 days after the reporting month (as an example, the Division should receive October 2011 monthly data in mid-month December 2011). This will provide for a timely review and ongoing audit on a monthly basis by the Division. In particular, the Company will need to prepare its first 12-month GRID simulation run (GOLD format) for the time period January 1, 2011, through December 31, 2011. This GRID run should incorporate all Commission-ordered adjustments found in the 2010 general rate case Order anticipated on (or about) September 21, 2011. This GRID run would be the NPC adopted by the commission and would continue until the next general rate case, at which time the commission would update the NPC.

Outstanding Issue of Rehearing on Swaps

In its Order on Petition for Clarification and Reconsideration or Rehearing of May 9, 2011, the Commission granted a limited rehearing on whether swap transactions should be included in the EBA mechanism. The full extent and details of the Company's annual EBA filing are unknown until the swaps issue is resolved. As of the date of this report, a rehearing on the swap transaction issue is scheduled November 1-2, 2011. This would appear to conflict with the initiation of the 4-year EBA pilot program, which was to begin on October 1, 2011. However, there may be little practical effect on the EBA if the swaps issue is resolved in time for the Company to correctly make its filing in March 2012.

[1] Technically the pilot program is for four and one-quarter years. The first filing in March 2012 covers the final three months of 2011. The subsequent four filing in March 2013-2016, are annual filings.

Required Information that the Company should file for the EBA 4-Year Pilot Program

Annual Filing by the Company on March 15 of Each Year

An annual filing requirement for the Company is the first data and information item identified in the Commission's EBA Order:

1) Develop a complete list of data, transaction and other information the Company will be required to file each March 15 to constitute a complete filing.

The Company should file the following information on an annual basis:

Twelve months of actual (historical) net power cost (NPC) data in the same format as DPU Data Request 12.10 in Docket No. 10-035-124 and DPU Data Request 6.1 in Docket No. 09-035-15. These data should include both dollars and MWh for each net power data category.
Twelve months of the base (forecast) NPC data in the same format as the GOLD NPC forecast by the Company. These data should include both dollars and MWh for each net power data category. Base NPC is based on the Commission's latest general rate case order.
A summary EBA Balance Calculation that presents 12 months of actual (historical) and base (forecast) data for Utah NPC, including the difference between actual and base, and the calculation of the deferral. The calculation of the deferral should include the following monthly balances: actual Utah NPC ($/MWh), base Utah NPC ($/MWh), difference ($/MWh), sharing (at 70%), actual MWh, deferral, beginning balance (in dollars), current month deferral (in dollars), interest (in dollars), and ending balance (in dollars).

These data are to be filed by the Company with the Commission on March 15 of each year. The Division then has 45 days to complete its review of the Company's annual filing.

Monthly Filings by the Company

The monthly data and information filing requirement is necessary for two ongoing Division EBA activities: 1) EBA auditing; and 2) EBA review, tracking, and monitoring. The second data and information item identified on page 78 of the Commission's EBA Order is:

2) Identify monthly information to be provided to the Division for its ongoing review.

A. Monthly Data for EBA Auditing by the Division

The Company should also regularly file with the Commission and the Division data and other information on a monthly basis. The monthly data should include transaction-level data for the relevant FERC Accounts. An example of transaction-level data for the FERC Accounts is found in DPU Data Request 13.1 in Docket No. 09-035-15. With the Company regularly filing each month detailed transaction-level data, the Division intends to actively audit and review these data on a monthly basis. The FERC Accounts, with several exclusions, are:

Account 447 -- Sales for Resale, excluding on-system wholesale sales and other revenues that are not modeled in GRID;
Account 456 -- Other Electric Revenues, excluding non-wheeling revenues;
Account 501 -- Fuel, Steam Generation, excluding a) Account 501 (Miscellaneous non-GRID Fuel Consumed), and b) Subaccounts 501.2 (Fuel Handling), c) 501.3 (Start-up Fuel – Gas), d) 501.4 (Fuel Consumed – Diesel), e) 501.45 (Start-up Fuel – Diesel), f) 501.5 (Residual Disposal), g) Swaps;
Account 503 -- Steam from Other Sources;
Account 547 -- Fuel, Other Generation, excluding Swaps;
Account 555 -- Purchased Power, excluding a) Swaps and b) BPA residential exchange credit pass-through if applicable;
Account 565 -- Transmission of Electricity by Others

The Division requests that this type of FERC Account-specific, transaction-level data be promptly made available for the Division to conduct its ongoing EBA audit. The Division assumes the transaction data are available approximately 45 days after the reporting month. After reviewing the transactions data, the Division as part of its audit may request additional information on any specific record. Although the EBA Pilot Program is not scheduled to begin until October 1, 2011, the Division requests that the Company provide the Division with FERC Account-specific, transaction level data for the corresponding months of the previous year (again, similar to the transaction-level data found in DPU Data Request 13.1 in Docket No. 09-035-15.) This will enable the Division to audit and monitor year-over-year changes with transactions at the FERC Account level. The information provided to the Division should begin with October 2010 data, since the 4-year EBA pilot program begins in October 2011.

B. Monthly Data for EBA Monitoring by the Division

The Company should also file with the Division actual (or historical) compared with the base (or forecast) NPC on a regular monthly basis. It is expected that the actual NPC data are available approximately 45 days after the reporting month. The Company should also file, on a monthly basis, an EBA Balance Calculation similar to the annual EBA Balance Calculation. This will allow the Division and other parties to monitor the state of the EBA during the year.

EBA Pilot Program Evaluation Plan

The development of the EBA pilot program evaluation plan is found on page 79 of the Commission's EBA Order. It directed the Division to:

3) Develop a pilot program evaluation plan to:

    a. Identify data and information to be tracked and evaluations to be conducted during the pilot.

The Division proposes a dozen EBA Pilot Program Evaluation Plan issues or criteria. These include Division performance in auditing, monitoring, and assessing the EBA; EBA agreement or disagreement by the Division and interveners; NPC variability; electric rate variability; effect on Company ROE; Company plant and power usage and performance; and other issues. At the current time, the Division is focusing on the following list of EBA issues or criteria. The Division's evaluation criteria issues are listed below and include a brief description of each.

Are both the Company and customers better or worse off? Is one better off and not the other?

The following evaluation plan criteria attempt to measure and quantitatively assess whether the Company and its customers are better or worse off.

Evaluate the Division's available resources vs. demands of EBA auditing, monitoring, and reporting.

Division staff and management will track the proportion of time used for EBA activities to all other duties. Quantitative and qualitative assessments of the effect of the EBA on DPU resources will be included in the DPU's quarterly report, which is discussed below.

Evaluate the level of comprehension by the Division (and interveners).

As the DPU monitors the EBA and conducts an audit and review of the monthly NPC components, some assistance from the Company will be required. It is anticipated that this assistance will decline over time, as the DPU learns in the process. Some initial Company assistance will be inevitable. The DPU will request Company assistance through telephone and meeting contacts, as well as consult with the Company through other forums. The rate of assistance will be reported in the DPU's quarterly report as described below. A judgment will be made as to whether the need for assistance is declining at a satisfactory rate in each quarterly report. If the need for assistance is determined to be remaining at a high level, the Division will work with the Company to identify the problem areas and develop remedies.

Evaluate the level of contentiousness/disagreement/interpretation raised at the true-up process and other forums.

The Division will observe and monitor the potential for lack of agreement in the annual true-up process.

Evaluate Company progress in smoothing variability of NPC in addition to EBA.

One reason for the sharing band was to encourage the Company to continue to seek improvements and efficiencies in the way it manages its NPC. The Division will monitor, evaluate and report on the Company's efforts in its management of hourly load fluctuations and longer-term efforts to reduce NPC volatility and costs. The Company should be making an effort at smoothing the NPC variability in addition to the EBA. Although, smoothing the variability of NPC is a reason the Company put forth for the necessity of an EBA, the Company should be making effort at smoothing the NPC variability in addition to the EBA. NPC components will be monitored by the DPU and their variability assessed with standard statistical measures. The Division will assess whether the Company has lost an incentive for smoothing NPC variability.

Evaluate changes, if any, in Company hedging and Front-Office Transactions.

At the current time, the swaps issue is scheduled for reconsideration and rehearing. Resolution of the swaps issue is critical for determining what and how the Company in its annual filing on March 15 each year. The Division will track and monitor the Company's hedging policy. The Division will continue to track, assess, and monitor the Company's Front-Office Transactions. An important determination is whether the Company changes its Front-Office Transactions performance and operations that can be attributed to the EBA.

Evaluate swings in the Company's rates.

Historical and going-forward electric rates will be monitored by the Division to determine the variability of rate changes. The expectation is that an EBA will result in a decrease in rate variability.

Evaluate the Company's ROE.

During the course of the EBA pilot program the Division intends to track quarterly the Company's returns on common equity. This tracking will correspond to the Company's SEC 10-K and 10-Q filings with a comparison made to the ROE the Company computes in its Semi-Annual reports. An evaluation of the ROE in the Semi-Annual reports will be compared in the same quarter that the SEC data are available. The expectation is that the EBA will move the Company's return on equity closer to the average authorized return(s). Currently the Company's achieved ROE is running about 2 percentage points below the Company's average authorized return.

Evaluate changes in the Company's IRP.

The Division intends to compare the Company's pre-EBA IRP preferred portfolio (i.e. baseline portfolio) with the changes that occur in the preferred portfolios in subsequent IRPs and IRP updates during the course of the EBA Pilot Program. The changes in subsequent IRPs from the baseline portfolio will be evaluated for evidence of influence on the updated preferred portfolios by the EBA. One of the assumptions has been that the establishment of the EBA would not affect the Company's efforts to establish a least cost/least risk generation portfolio.

Evaluate changes in the Company's plant usage and performance.

As part of its review of monthly NPC, the Division will track and monitor Company plant usage and performance. An important determination is whether, due to the EBA, the Company uses its plants differently.

Commission suggested need to evaluate the implicit capacity price or charge.

This would be related to how the Company uses its generation and front office transactions. For example, is the Company buying more or less short-term and peak power? What effect does that have on need capacity? Is the IRP tending to reduce Company owned acquisitions? Is the Company operating more efficiently? What are the implications for capacity or demand charges?

Evaluate growth in revenue (if load growth occurs).

This could be measured in part by the absolute difference between the base NPC and actual NPC. A growing or shrinking margin could suggest that the Company is either earning excess profits or suffering excess losses, this may or may not suggest changes to the program formulae.

Training Requirements for the EBA Pilot Program

Training requirements for the EBA pilot program were identified in the Commission EBA Order on page 79 under item 3):

3) Develop a pilot program evaluation plan to:

   b. Identify training requirements, and conduct training for the work group, including, but not limited to:

      i. The relationship of accounts in the EBA to the net power components in the GRID model;

      ii. The relationship to FERC accounts and how they are booked and reconciled.

The Division does not identify specific training requirements for the EBA pilot program. The Division, however, requests that the Company be available on an on-going basis to assist the Division and other parties with training as the need develops.

Division Internal Monitoring and Reporting

Initially the Division plans to prepare an internal memo on a quarterly basis that will review for Division management the issues and concerns enumerated above. After internal circulation and approval by Division management, this quarterly report will be filed with the Commission and will then be available for public review and comment.

Conclusion

The Division presents this report regarding its pre-EBA plans and information requirements. In particular, the Division's EBA Pilot Program Evaluation Plan, as well as its data and information requirements, are preliminary and subject to change. As reported in testimony in this Docket, the Division remains concerned that the demands of this program may be greater than the Division's available resources, but only time will tell whether this concern is well-founded or not. The Division's plans and proposed evaluations appear to be at least minimally achievable. As the Division, the Company, and others gain experience actually operating the EBA, it is to be expected that the plans outlined here will be modified based upon that experience.